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# WAGES IN THE UNITED STATES.

## THE CAUSES WHICH DETERMINE WAGES.

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### PRELIMINARY QUESTION.

BEFORE speaking of the causes which determine wages in the United States, a preliminary question should be answered: Is the wage-system only a transitory mode of organization of labor, which is in time destined to disappear? If this be so, it would seem an idle task to attempt a detailed study of it, and it would be more profitable for us to devote ourselves to the consideration of a substitute for it.

The fact that slavery, serfdom and the wage-system appear to be the successive phases in the history of economic development has led to the belief that something else will in turn take the place of the wage-system. The socialists, from the days of St. Simon and Fourier, have denounced the wage-system as a form of the subjection of the proletariat; they have had a glimpse in their dreams of a fourth phase of civilization, one of the conditions of which is to be the suppression of private property. Those who, with them, are possessed of this faith, live in the illusion; those who declaim against the wage-system for policy's sake, without really holding this belief, commit a great wrong, for by so doing they turn the mind of the laborer away from practical means for the amelioration of his lot, and foment social discord. In general the socialist schools openly profess this doctrine of an ultimate displacement of the wage-system; the two largest labor associations in the United States are affected by it in their theoretical position, while seeking in practice and for the time being to increase the earnings and the leisure of the workman.

The truth is that wage-laborers have existed at all times, even when the majority of laborers were slaves. Wage-labor, which is, so to speak, inherent in the relations of man, has

developed in proportion as individual liberty has advanced, will last as long as liberty itself, and will be one of the conditions of social organization. The wage relation is a contract, not only legitimate, but naturally indispensable to the producers and advantageous to both contracting parties. The direction of an enterprise is a difficult, delicate and hazardous task, for which not everyone is fitted, and in which many who make the attempt fail; the so-called co-operative association is ordinarily still more difficult to conduct, and is therefore not suited for everybody or for all purposes.

The employment of wage-labor is therefore not only a right, as one of the legitimate forms of the freedom of labor, but is an economic necessity as well, whether it be exercised by the individual owner of an enterprise, or by a director intrusted with the management of the affairs of a corporation. Under the direction of the master there must be co-laborers, and the greater the concentration of industry, the larger the number of such laborers will a single enterprise bring together. Now, I have elsewhere shown that industry is tending to concentration. The services of the laborers employed are paid a price agreed upon in advance, and are therefore much more conveniently and more regularly paid than they would be if their reward depended on the chance of an eventual profit, as is the case with the shareholders in a joint-stock company, and more equitably than if it were dependent upon the arbitrary will of a board of directors. What we ought to strive for is not the utopian ideal of the suppression of the wage-system, but better conditions under which the wage-system may operate—to the advantage of those who sell and those who buy labor.

When labor is applied to the production of material goods—which is the most usual case—it is one factor in the creation of a joint product resulting from the co-operation of employer, capital and labor, or, in other words, of the labor of supervision, the labor of the workman, and the services of capital. The proportion which belongs to each of these factors in the management and execution of the work, and in the market value of the

product, and the proportion of the value received by each before or after the completion of the work, is not the same in all cases and is not invariable; it is the privilege of each of the three factors to have some say in the determination of its own portion. The laborer's share then depends, in part at least, upon his skill and the manner in which he asserts his claim.

All labor is not applied directly to production. The wage-contract is of the nature of a lease, in which the lessor furnishes his labor and his time, and the lessee his money. It includes therefore, besides the laborer in the narrower sense of the word, such persons as work for wages, but whose labor does not result in a material, tangible product; and for these categories of laborers, it must be admitted that the remuneration could not be directly measured by their product. The socialist schools which start from Proudhon and Karl Marx (who seems to have modified his views toward the end of his life) by a singular disregard of the facts lay it down as a fundamental principle that the labor of the workman creates the whole of the value of the product, and it is on the strength of this absurdity that they pronounce judgment on the wage-system, because it assigns to labor only a part of this value. But they have great difficulty in reconciling their theory with the existence of labor which does not result in a material product; while on the other hand their value-theory will itself not stand examination, and the principles they draw from it are in contradiction with economic science as well as with common sense. Their condemnation of it alone will not do away with the wage-system.

Wage-labor, then, is not a transitory phenomenon in free societies, and especially in the United States; it is, indeed, probable that it is on the increase, *i. e.*, that the numerical proportion of wage-laborers to undertakers will go on increasing, through the influence of machinery, as it has increased in Europe, and especially in France, by the suppression of the trade guilds. It will therefore be in place to discuss the causes which determine the rates of wages in the United States and the manner in which these causes operate.

My present discussion of the question is concerned only with nominal wages, *i. e.*, the sum of money which the laborer receives ; and I speak only incidentally of real wages, that is, the means of livelihood which he can purchase with the money. The latter is a phase of the question which can be taken up only after we have discussed his mode of living.

#### CUSTOM.

What are the wages paid today in any given place or in any given factory ? The rate is so and so much. The greater part of workmen and of masters do not look farther but accept what is customary. It is often, indeed, the answer to this question of the customary wage which determines whether workmen are to be brought together for a given enterprise. Custom then has an important influence in fixing the rate of wages. The objection might be urged that the word custom is only the expression of a fact, and explains nothing. Without doubt every fact has a cause, and the customary wage, like every other wage, is determined by the law of wages. But by the very fact of its existence somewhere, a certain rate contains in itself a force of inertia which often maintains it for a longer time than the strictly economic conditions which produced it require. For this reason custom should itself be reckoned as one of the causes determining wages. It is in a sense the conserving factor of wages ; wages are more stable than the prices of commodities, and it is to custom in part that this relative stability is due.

Custom makes its influence felt everywhere, but more especially in the case of low wages than of high wages, in countries where the people are not educated and free than where they are. Where the working classes, by habits of thought and corporative organization, are in a condition to look after their own interests, tradition loses its force, wages are determined more and more by the actual and varying relation between demand and supply.

A wage-scale is for the time more imperious than custom, because it constitutes a contract made for a certain length of

time between employers and employés who have agreed to accept such a scale. It is ordinarily for only six months or a year that such a wage-scale contract is made. Americans would be reluctant to bind themselves for too long a time. Such a scale is either individual, *i. e.*, between a single workman and his employer, or collective, *i. e.*, between an employer or an association of employers and an association of workmen. This latter case, which is quite common in America, especially in the building trades and the mining industries, presupposes a strong organization on the part of the laborers and makes wages more variable and more strictly proportional to the value of the product than does custom. The democratic ideas of the American people serve to strengthen the custom of high wages. What M. de Tocqueville said sixty years ago in this regard will bear repetition: "The slow progressive rise of wages is one of the general laws governing democratic societies. In proportion as conditions become more equal, wages rise, and in proportion as wages rise conditions become more equal. . . . In the continual struggle over wages between masters and workmen, the forces are then divided, the successes alternate. It is even to be believed that in the long run the interest of the workmen is bound to prevail, for the high wages they have received render them every day less dependent on their masters."<sup>1</sup>

#### SUPPLY AND DEMAND.

"Supply and demand" is the supreme law of value; it determines the rate of wages and the price of commodities. Socialists, and even certain economists who reject this law or treat it disdainfully as a "truism," have proved nothing more than their own inability to comprehend it. It is true that when one says supply and demand of labor, the conditions which determine each of them, and which also determine variations in the rates of wages

<sup>1</sup> *Democracy in America*, part iii. chap. vii.—The author did not see as far into the future when he wrote (chap. v): "They do not dispute with each other in regard to the position they occupy, but each party knows his position and holds to it. . . . At the bottom of their hearts neither master nor workman any longer sees any profound difference between them."

still remain unknown. For this law includes and sums up all these causes: productivity of labor, which stimulates the demand for labor; competition between employers, which increases the demand as competition among workmen increases the supply; cost of living, which drives away the supply when the demand offers too small a remuneration; abundance of capital, which multiplies the demand; consumption of products, which when active works in the same direction; improvement of machinery, which may at first lessen the demand, but may also increase it if the low price of the product calls forth an excessive increase in consumption; immigration, which increases the supply; education, which displaces the supply of labor of inferior grades by labor of superior grades, and may consequently be favorable to low wages and unfavorable to exceptionally high wages; labor organizations, which may bring about the consolidation of a supply previously unorganized, in the same way as organizations of employers may concentrate demand.

#### PRODUCTIVITY OF LABOR.

Productivity of labor is assuredly the one of these special causes which deserves a place in the first rank. The wage system is a mode of distribution of wealth by which the workman receives, by anticipation and according to a rate fixed in advance, a share in the probable value of the commodity in whose production he has assisted. It is evident that labor of a kind which creates no value would furnish no basis for a wage, and that anyone who should pay for such labor would do so at a clear loss; that on the contrary, if the labor of the workman, because of its qualitative or quantitative excellence, adds much to the value of the product, there is a basis for a good remuneration, and the laborer has a right to it. Yet the laborer must know how to make his right good in the competition of supply and demand, for the undertaker will be the last one to offer it to him. "If the wage-laborer," says General Walker in one of the best treatises published on wages, "does not pursue his interest he loses his interest."<sup>1</sup>

<sup>1</sup> *The Wages Question*, chap. x.

In piece-labor the relation of wages to the product is more apparent than in day-labor. The chairman of the commission appointed to investigate the Homestead troubles asked the director of the Carnegie Company upon what basis he determined the maximum and minimum wage in his scale; "Upon the selling price of our products," was the reply. He might have added, however, that he did not follow all the variations in price, and that the determination before the commodity was produced and sold could be only approximate.

General Walker has put forward the productivity of labor as the supreme law of wages, and a number of American economists, notably Mr. Schoenhof, have adopted this theory.<sup>1</sup> Mr. Atkinson also in reality ends with the productivity of labor. "Wages are a consequence, a resultant, a remainder after capital has received the profit which decided it to undertake the venture; the rate of wages cannot therefore be considered as the true measure of the cost of production. Wages are a resultant and their rate is, or ought to be, at the end of the count, determined by what the finished product brings in, and not by what the capitalist may promise or is willing to pay for a certain time."<sup>2</sup> Farther on the author says that low wages are not necessary to low cost of production, that on the contrary they ordinarily indicate a high cost of production.

Without doubt the American laborer works hard and is well supplied with tools. Without doubt, too, the American employer who by virtue of custom pays him high wages and is eager for gain, would not support him in idleness; he furnishes his works with the most powerful and the most economical machinery and gets the most he can from the man and from the tools.

Professor Laughlin who, in his *Elements of Political Economy*, supports, with various modifications and improvements, the wage

<sup>1</sup> "A high rate of wages signifies a high degree of productivity and implies a large power of consumption. A rise of this rate simply indicates that a change has taken place in the direction of an economy in production."—*The Economy of High Wages*, p. 63.

<sup>2</sup> *The Distribution of Products*, pp. 53 and 63.



theory of John Stuart Mill, accepts the general productivity of labor as the cause of a high or a low rate of wages; he rightly adds that wages fluctuate above or below this level up to the moment when the demand and supply of labor determine the precise point finally agreed upon between the employer and the employee.

European economists, before the publication of General Francis A. Walker's work, had spoken of the influence of productivity, especially Thornton in his work *On Labor*. M. Paul Leroy-Beaulieu, who had alluded to it in his *Travail des Femmes au XIX<sup>e</sup> Siècle*, comes forward in his *Traité Théorique et Pratique d'Économie Politique* to claim a share in the authorship of this doctrine.<sup>1</sup>

For my part, I have always placed the productivity of labor in the front rank among the causes of wages; for twenty-five years I have taught in the *Conservatoire des Arts et Métiers*, and have furthermore said in my *Précis d'Économie Politique*, that between labor and products, both of them commodities, there exists an essential difference which consists in the fact that *products tend to be sold for what they cost, while labor tends to be paid what it is worth, i. e., the price of products, by competition, tends to approach cost of production, while wages tend to correspond to a certain degree to the productivity of the laborer.*<sup>2</sup>

Under the head of "An Economic Paradox" I have often demonstrated in my lectures how with higher wages and more expensive raw materials a manufacturer could sell his wares cheaper and at the same time make more profit for himself; all that is required is that he should have machinery powerful enough to produce a much larger quantity in the same time and with the same laborers; it is a demonstration of the productivity of labor.<sup>3</sup>

<sup>1</sup> Vol. ii. pp. 268, 280.

<sup>2</sup> Mr. Hewitt, in his Inaugural Address as President of the Society of Engineers (p. 20), expresses almost the same thought, drawn from the works of Mr. Atkinson: "The law discovered by Atkinson and demonstrated by Giffen, that labor receives an ever increasing share in the product, and capital an ever diminishing share, but that the increase of production assures capital an equivalent remuneration. . . ."

<sup>3</sup> *Précis d'Économie Politique*, p. 35.

But I have always taken care to add that we must not regard productivity as the sole rule, nor as a rule without exception; for servants in America are paid more than in Europe, although in general they do less work there than they do in France; they are paid more now in nearly every country than they were fifty years ago, although they do no more work.

Furthermore, we must not believe that the laborer, properly so-called, receives at all times and in all industries a reward exactly proportional to the value which he produces.

In America as in Europe, a spinner working with machinery and turning out a thousand times more thread than one using the old fashioned spinning-wheel, receives more money than formerly, but is far from receiving a thousand times more. When an undertaker begins a manufacture he does not say to himself: "A spinner with a spinning-wheel used to make five bundles per day; a laborer with two boys to assist him tending machines makes 50,000 bundles a day. I will therefore pay them 10,000 times as much to divide between them." That would be absurd. He asks himself how much it is customary to pay per day in the locality, and after calculating whether, with his plant, he will be able to produce and sell to advantage at the actual market price, he offers the usual wage, with the certainty that laborers will respond to his call.

If he thinks that with his plant he can produce at a great advantage, he offers a little more than the ordinary wage, in order to attract good workmen, and this is the way wages rise with the productivity of labor; but the advance offered is by no means in the proportion of the increased quantity produced. As a matter of fact the wages of spinners have increased during the last fifty years, but the value of the yarn has fallen in an infinitely greater proportion, and the consumer is the one who has gained most from the change. Of course, the laborer is a consumer, and in so far he has gained by the change.

More than thirty years ago I endeavoured to explain this economic phenomenon in a pamphlet entitled *Le Rôle de l'Intelligence dans la Production*. It is not to be understood that wages

always rise with an increase in productivity. A good mechanic received higher wages when only relatively few men knew how to tend a machine than he does today after this kind of skill has become common; and yet he performs no less labor than before. The productivity of labor acts in divers ways in determining the rate of wages. In general we may say that at first wages and profits rise when the same amount of effort produces greater results, and therefore more money; but very soon the price of the product falls, until, by the action of competition, wages and profits are brought to the usual level, although wages do not ordinarily fall as low as before. If the product was difficult to manufacture before the invention of the machine, skilled labor was necessary and the rate of wages was correspondingly high; if the machine is so perfect as to make the labor of the workman easy, ordinary labor may replace the skilled labor previously employed, and the average of wages in that trade may fall. This phenomenon has occurred in several trades in the United States; tailors in particular have complained bitterly on this score. In America, then, as in Europe there are cases where the laborer receives less pay than formerly and yet produces a much greater quantity of goods, and even a greater value. This result runs counter to the rule that wages are proportional to productivity. A study of the facts, therefore, gives the lie to all absolute theories which would assign a single cause to the rate of wages. Nevertheless we may safely assert that the productivity of labor is one of the chief causes of high wages in America; for shirking does not occur to any extent. The laborer works hard and has to give close attention to his work, in consequence of his being supplied with more powerful machinery than in any other country.

There is one important consequence distinctly to be drawn from this: The rate of wages and the cost of production of commodities do not stand in any necessary proportional relation to each other. Neither, we may add, do cost of production and selling-price; for although the selling-price strongly tends to conform to the cost of production under the free play of com-

petition, yet there are considerable deviations owing to certain causes which need not be specified here. Wages constitute one of the elements in cost of production, in the majority of cases today, indeed, the predominant element; that is the reason why the cost of building has risen so high in the United States. But in cases where machinery or, speaking generally, capital exercises the dominant influence, wages and cost usually tend in opposite directions, *i. e.*, wages may increase, and often do increase, at the same time that the value of the commodity decreases; that is precisely what has taken place in the spinning trade, and is what I have termed An Economic Paradox. It is one of the most fortunate results of industrial progress.

#### COST OF LIVING.

Cost of living is also one of the causes which deserve to be mentioned in the front rank. The laborer's family must of course be supported out of the results of his labor; but there are many different ways of living, and it may be said that cost of living has no more a lower limit than it has an upper one.<sup>1</sup> From the cost of living of the iron-roller earning ten dollars a day, or even of the blacksmith earning thirty-five dollars a week, to that of the sweat-shop hand with wages reduced to one dollar a day, there is a long descending series from comfort to actual want. A laborer of French origin once said to me: "The American laborer will live on anything." The Indian mason who earns eight annas a day<sup>2</sup> (about twenty cents at the par value of silver, or ten cents at the actual price), and the Japanese<sup>3</sup> workman whose wage is equivalent to twenty or twenty-five cents, certainly do not live in the same manner as the New York mason who earns four dollars a day.

I have cited the evidence of an American laborer who said

<sup>1</sup> See F. A. WALKER, *The Wages Question*, chap. vii., "Necessary Wages."

<sup>2</sup> The carpenters employed on the canals of Oussa in 1892 earned 7 and 5 annas; in other localities they received on the average 15 rupees a month.—See *Prices and Wages in India* (Calcutta, 1893).

<sup>3</sup> See BOISSONADE, *A Survey of the Progress of Modern Japan*, in the proceedings of the Academy of Moral and Political Science.

that on less than four dollars per day, which is less than thirty or forty times as much as these Asiatics receive, a laborer could not decently support a family. How many of the upper class in America and Europe would say four dollars? The Workingmen's party in the United States regard the "standard of living" as the true determinant of the rate of wages. "Wages have been and always will be determined by the actual conditions of life and whatever tends to raise the standard of decency and comfort must of necessity influence the standard of wages.<sup>1</sup> Hence the great problem of the day is not how to increase production, in a market already overcrowded, but how to increase consumption and thus extend the demand." This is the way one of the champions of the "American Federation of Labor" expresses himself, in a pamphlet written for workingmen.<sup>2</sup>

"Why," asks another, "does the laborer receive higher wages in places where the standard of living is high than where it is low? Answer, Because in the one place the standard of living is high and in the other it is low. That is the great law. The standard of living determines wages. It is true that in some places and at some times wages rise above the standard of living, but this deviation does not last long and very soon the law is confirmed by a fall in wages to the old level. Nevertheless, if the standard of living rises above the level of wages, it will maintain itself. Question, What determines the standard of living? Answer, As a general rule for all places and all times, the demand for an increase of wages is the consequence of the pressure exerted by new needs and new wants. A man who knows how to read and wishes to read will demand a wage which will permit him to buy books. Rest from labor on Sunday necessitates a wage which enables the laborer by working six days to earn enough for seven; shabby clothes make shabby wages; poor lodging causes poor wages. On the contrary good clothes, good

<sup>1</sup> "As wages are governed by the standard of living and the standard of living is governed by the social wants of the laborer . . ." says a third.—G. GUNTON. *Eight-Hour Movement*, No. 2, p. 11.

<sup>2</sup> DANRYRD, *Eight-Hour Movement*, No. 3, p. 9.

food, good lodging mean good wages. Your wages will be higher only when you feel the need of a higher standard of life." In support of his argument the author cites various mutilated extracts from several economists, which he thinks support his opinion; there are in fact some distinguished economists who come very near professing this doctrine.<sup>1</sup> The author ends his workingman's catechism by saying that history and experience teach that the great motive of man is for the bettering of his condition, that organization is the best means for reaching a better condition, that leisure creates new needs, and that leisure must be secured, that time is money, and that the laborer should endeavor to get as much as possible for his time or give the least possible time for the money he gets.<sup>2</sup>

The Workingmen's party in America misuse the principle of cost of living in attempting to prove from it that the laborer is paid in proportion to this cost, and that the only thing necessary for higher wages is to have a larger number of wants. Socialists like Lassalle and Marx misuse it in the opposite sense, saying that wages have a fatal tendency to descend to minimum cost of living, according to what Lassalle called the iron law of wages. The real law which governs the actual phenomena is not so inflexible as either side has imagined. Political economy, enlightened by a study of the facts, has solved the contradiction and shown that the minimum cost of living is not a hard and fast line, but a moving standard which varies considerably according to the state of civilization. The American laborer is at the top of this scale.

The Workingmen's party, then, whose arguments are plausible because they contain a considerable proportion of truth, are much too absolute in their opinions, as are also those economists who would make the productivity of labor the sole law of wages. Their theory results from a superficial and incomplete

<sup>1</sup> "That the standard of comfort determines the rate of wages is a doctrine sustained for over a hundred years by economists of the highest authority, and confirmed so fully by a mass of facts gathered in different countries that it is hard to contradict it."—R. T. ELY. *Introduction to Political Economy* p. 221.

<sup>2</sup> See GEO. E. MCNEILL. *The Eight-Hour Primer*, No. 1.

view of the phenomena. Without doubt the standard of living, determined by the aggregate of needs customarily satisfied, has its influence on wages, but rather to maintain than to raise them. But this standard is not arbitrarily established by the workers themselves; it is an effect before it is a cause, and remains an effect rather than a cause.<sup>1</sup> As effect it is the result of the productivity of labor and of the general wealth of the country, and results directly from the remuneration of labor itself, for the laborer accustoms himself to a mode of living which corresponds to his wage. As cause it prevents the laborer in normal times from accepting a wage below the rate which is customary to his trade, precisely because the customary wage corresponds to the mode of living common to persons of his condition. Every laborer spends more as he earns more. A printer in New York would have great difficulty in regulating his expenditure according to that of a weaver in Nashua. In America and in France, the laborers of the eighteenth century did not have the same needs nor the same cost of living as the laborers of today. When wages have once risen to a certain level, and the working class have gradually accommodated their mode of living to that level, it is very hard for them, as it is for all classes of society, to accommodate themselves to a reduced standard. They will defend themselves as best they can; their weapons are chiefly strikes, which are not of infrequent occurrence. Custom helps to sustain this level for some time, acting as a conservative element. But as it is better to live miserably than not to live at all, the laborer, after resisting as long as he can, finally yields to the continual pressure of necessity; when an industry leaves a country, the laborer sometimes has no alternative but that of emigrating or of dying of hunger. An anecdote taken from the senate inquiry of 1883 well illustrates this situation: "In 1842 the factories of Massachusetts were all closing," said one of the witnesses. "I did not possess sufficient capital to

<sup>1</sup> M. LEROY-BEAULIEU is right in saying, "It is evident that it is the remuneration of the laborer which determines his mode of living, and not his mode of living which determines his remuneration."—*Traité Théorique et Pratique d'Économie Politique*, vol. ii. p. 261.

keep my works going at a loss. So I told my men that I would have to stop work during the winter unless they would consent to a reduction of wages; they refused. One man, the father of six children, said to me that he would rather send his family to the poorhouse than work for a lower wage. I closed my works and spent the winter with my wife at the home of my father. I returned in the spring and started a fire in the factory. On perceiving the smoke, the laborers came in a crowd from the vicinity and asked me if I was going to begin work. The same man was in the crowd. 'Are you going to start up?' he asked. 'I don't know.' 'Start up for heaven's sake, and give us whatever pay you can. I have had no work all winter, except occasionally splitting wood for fifty cents a cord; I could only split a cord a day and with that have supported my family all winter.' 'I could have done better for you than that, but you said you would rather go to the poorhouse.' 'Yes, but I was wrong; I would be glad to work now.' When my men saw that they had to be content with a certain wage or get none at all, they came back to me."<sup>1</sup>

#### COMPETITION.

Competition between laborers and between employers is one of the most important elements in the determination of wages; it is essentially a play of supply and demand. In this respect there is one fact which does not work to the advantage of the American laborer, viz., immigration, which brings over every year half a million men, and often more, increases the supply and creates a competition all the more disagreeable because these men, coming as they do from countries where wages, and consequently the standard of living, are much lower, constitute a supply of cheap labor which is constantly renewed. This influence is most felt in the eastern states where the ports of entry are; it is certainly one of the reasons why wages are lower there, although manufactures and wealth are more abundant, than in the West. American laborers feel this; hence their hatred and

<sup>1</sup> *Investigations of the Senate*, "Labor and Capital," iii. 289.



their proscription of the Chinese, who sell their labor at so low a price; hence the feeling of suspicion toward the French Canadians, Italians and Russian Jews; hence the efforts of the laborers to restrict the immigration of foreigners by legislation, and the support granted this measure by the People's party. Of the laws passed to satisfy the demands of the workingmen, some are justified on ethical grounds, others are to be condemned in the name of liberty. It is true that the majority of protective-tariff laws care little for the principle of liberty; those which stop wheat or woollen goods at the frontier in order to enhance the rent of the landlord or the profit of the manufacturer are less defensible even than those by means of which the laborer contends for his own well-being. Legislation of this class is not inspired by the sentiment of justice, but is dictated by the particular interest of the majority or by a politically preponderant influence.

Labor has in general greater mobility in America than elsewhere; when there is opportunity to obtain a higher remuneration anywhere, labor flocks to that place, easily changing its residence and even its trade. Is this mobility an advantage to the laborer? It certainly contributes in some degree to make wages uniform throughout the United States. General Walker says it also serves to raise the general level of wages,<sup>1</sup> and I agree with him, because it has a powerful effect in driving labor away from places where its oversupply is beginning to cause a depreciation of wages. The American workman has against him today the concentration and organization of industry, which diminishes the competition between employers and facilitates their united action; we have already seen how rapid is this movement toward concentration in the United States. Labor is endeavoring to counterbalance this influence by that of trades-unions. In America these associations have neither law nor public opinion against them; they act in the full light of day. Moreover, for a long time the courts have not condemned strikers; they punish only for acts of violence specified and proved. As mutual

<sup>1</sup> *The Wages Question*, part i. chaps. iv. and x.

respect for individual rights and equal liberty are hard to put in practice among men, the play of competition is very fierce in the United States. In some trades, *e. g.*, the building trade, the laborers have almost made themselves masters of the situation, and come very near dictating terms to their employers; whence it follows that the price of building has risen very high. But in certain of the great mills and manufactures the employers are strong enough to admit trades-unions only under certain conditions and sometimes even not at all.

When a close examination is made of the events that have taken place in the United States and Europe during the last fifteen years, the conviction is carried away that trades-unions have become one of the great powers of the industrial world, and that this power, drawing its strength from combination has, either by strikes or by amicable agreements, exerted a great influence upon certain wages, and upon other terms also of the wage-contract. This, however, need not mean, as some of the spokesmen of labor would have us believe, that trades-unions are becoming our masters and that they can regulate things to suit their fancy; wages may rise without any intervention on their part, as is shown by the rise in wages of farm-laborers and servants. Moreover they can raise wages and keep them at the higher level only in so far as the double standard of the productivity of labor and the general wealth of the country will allow. Now, the strikes which these agitators excite impair this general wealth, and if they occur too frequently or are followed by too disastrous consequences in the future, they will finally frighten capital, disturb the spirit of enterprise, stop the increase of the wages-fund, or even diminish the actual fund in existence, in which case wages would fall.

One of the most distinguished economists in the United States, Professor Laughlin, is of the opinion that trades-unions disturb the natural rate of wages by forcing the market, on the one hand, in order to raise the wages of their members, and, on the other hand, by depressing the wages of non-union workmen, whom the trades-unions aim to exclude from all work. "The

strikers gain at the expense of other workmen." The remark is just, but it will not cause a single union to go back upon its pretensions to monopoly, because in the conflict of interests any individual, or any group, on whatever theoretical ground it may justify itself, will always look after its own interests and not after that of others, and generally in the conviction, too, that its cause is the cause of humanity.

Laws which, in some cases with good effect, impose restrictions on the labor of women and children, or which shorten the working day, restrict the action of competition; the working classes are right when they say that the influence of such laws is to raise the price of an hour's work. They are not so clearly in the right when they think that such laws do not lessen the total remuneration for the day thus shortened and that they do not hinder the performance of certain kinds of labor.

#### CAPITAL, ITS PRODUCTION AND CONSUMPTION.

The old wages-fund theory which John Stuart Mill maintained, assumed the existence of a certain amount of capital which was expended in paying wages, and which at any given time could be neither increased nor diminished; so that if any part of the working class received a larger share through a rise in wages, the share of the other part would be necessarily diminished; or if the number of laborers increased, they would have to submit to a reduction in wages proportional to their increase in number. The inadequacy of this theory has been demonstrated,<sup>1</sup> but that is no reason for rejecting it entirely. As a matter of fact there does not exist any such fund of free capital, laid away as it were in a fixed quantity in some special till, for the payment of labor during the course of a year. But it is evident that labor cannot be employed without workshops, tools and materials, and for all this there must be fixed and circulating capital. Further, before the product is finished and paid for by the consumer, the labor expended on it must nearly always be

<sup>1</sup> See, among other American works on this question: *The Wages Question* by F. A. WALKER, part i. chap. ix.; and *Traité Théorique et Pratique d'Économie Politique* by M. PAUL LEROY BEAULIEU, vol. ii. p. 261.

advanced for a certain length of time, and for that there must be circulating capital,—the very thing the wages-fund theory refers to. In general it is capital that makes this advance. But even in case the undertaker gets the remuneration for his service before paying his employees for their labor, as in the case of railroads,<sup>1</sup> fixed capital has previously had to be advanced for the roadbed and the materials. The more abundant the supply of capital, under whatever form it may be employed, the greater the number of laborers that can be hired, and the higher ordinarily will be the wages offered; that is not to be doubted. But, furthermore, the more quickly these laborers produce, or the more quickly consumption absorbs their product, the more quickly also will capital be renewed. A single circulating capital then, if it is quickly renewed, may, during the course of the year, command more labor, expend more in wages, and as the result of the increased demand pay higher wages, than if it remained relatively inactive. The laborer himself each day helps to increase the supply of capital, and by using the proceeds of his wages in consumption increases the rapidity of circulation of capital.<sup>2</sup>

#### RESUMÉ.

We may say that the United States is rich relatively, because, thanks to the natural richness of the soil and to the activity of its population, it has enjoyed an almost unbroken economic growth in all directions, which has produced an ever-increasing demand for labor, and has kept up production by a consumption whose individual average is higher than that of Europe. To sum up, then, *wages are regulated by a complex cause*,<sup>3</sup> which, acting in various

<sup>1</sup> *The Wages Question*, p. 134.

<sup>2</sup> "If production furnishes the measure of wages then the wages class is entitled to the immediate benefit of every improvement in science and art, every discovery of resources in nature, every advance in their own industrial character. Surely it is not a small matter that the laborer should find a measure of his wages in the present and the future, rather than in the past." Such is the resumé of the doctrine of General Walker.—*The Wages Question*, p. 411.

<sup>3</sup> In the *Quarterly Journal of Economics* MR. CHARLES BEARDSLEY says very correctly: "According to the theory that wages are limited by capital, wages might rise

ways upon *supply and demand*, determines the particular rate of each industry and of each individual as well as the general average rate. These causes are: (1) *The productivity of labor*, which is the chief factor in the determination of a graduated scale of wages according to merit, as well as in the general prevalence of high wages in the present century; (2) *competition*, which is affected in a sense favorable to the interests of the laborer by the advance of industry, and to his detriment by immigration, and which is also restricted in its action by organizations on the part of employers or laborers; (3) *cost of living*, which, while properly a result of his wages, at the same time affords a support to the laborer in resisting any reduction in wages; (4) the *capital* employed in industry as fixed or as circulating capital (the latter corresponding pretty nearly to the wages fund), the influence of the latter being affected not only by its quantity but also by its rapidity of circulation; (5) the *general condition of wealth* of the country; (6) the *total consumption*. These rules apply in America as well as in Europe. But in a new country like America many of them act with greater intensity than in Europe; the higher productivity of labor, higher cost of living, and the more rapid circulation of capital, act to raise wages, whereas the competition resulting from immigration acts to depress them.

Secondary causes often complicate the problem of wages. Wages may be paid in money or in kind. In the United States the custom was at one time to pay part in money and part in commodities or provisions, and it is so still in some regions. This system, which in certain cases may be justified by the scarcity of money, makes a precise determination of the rate of wages impossible; it leaves less freedom to the laborer than the system of money payment, and it not infrequently happens that it acts to the disadvantage of the laborer on account of the increased profit which the employer can make by selling his commodities to his employees. Wages may be paid at long or

if capital increased. According to the doctrine that wages depend on product, wages may rise if the product increases. Both theories ignore the fact that a change in the volume of the national dividend may be accompanied by a readjustment of the relative proportions of the shares in distribution . . . "—July 1895, p. 452.

short intervals. In the United States it has long been the custom to settle accounts only once a year; this binds the laborer to the factory, and amounts to a depreciation of wages. Fortnightly or weekly payment, which is much more desirable, has made some progress, due to an increased abundance of the precious metals and the increase in strength of the laborers; it is energetically demanded by the trade-unions. Wages may be paid in good money or in depreciated. Payment in depreciated money is not honest payment. The laborer nominally receives a larger sum than before, and may be deceived for some time; but as he has to pay more for everything he buys, his condition is not improved; rather, he is worse off, because in such cases a rise in nominal wages does not usually precede, but follows some distance behind the rise in prices. The American laborer has had experience of this under the paper-money régime during and immediately after the War of the Rebellion. The illusion produced by the high wages of this period is very often the cause of an error of judgment on the part of American laborers. They assert that wages have fallen because statistics show that the number of dollars earned per week at that time was greater than that earned after the resumption of specie payments, and in certain trades even greater than that earned today. They would avoid this error if they took the trouble to compare this nominal gain with the increased nominal expenses of the same period.

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